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RISK & COMPLIANCE JOURNAL

Short Seller Carson Block Sued Over \$14 Million Whistleblower Award

Lawsuit highlights the often lengthy and complex road to winning SEC whistleblower awards

By Mengqi Sun [Follow](#)

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Carson Block of Muddy Waters LLC. PHOTO: JORDAN VONDERHAAR/BLOOMBERG NEWS

A private investor is seeking \$7 million in a lawsuit against short seller Carson Block and his equity research firm Muddy Waters LLC in a dispute over an approximately \$14 million whistleblower award by the Securities and Exchange Commission.

Kevin Barnes said he worked with Mr. Block on a report on Focus Media Holding Ltd. that formed the basis of a SEC action, and that the two had agreed to share proceeds from legal or regulatory actions stemming from their research on the China-based advertising company. Mr. Block is known for investigating Chinese companies.

The details of the SEC award in relation to the Focus Media case, the process of which began more than a decade ago, highlight the often lengthy and complex road to winning a whistleblower award from the regulator.

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The 2010 Dodd-Frank Act established the SEC cash-for-tips program. It awards whistleblowers between 10% and 30% of monetary penalties when tips result in successful enforcement actions and when penalties exceed more than \$1 million.

According to the lawsuit filed by Mr. Barnes in New York Supreme Court on Monday, the SEC granted Mr. Block the whistleblower award in March and he declined to compensate Mr. Barnes for his contribution to the report on Focus Media, which was published in 2011.

The lawsuit also alleges Mr. Block and Muddy Waters improperly asserted exclusive control over the report.

The SEC doesn't publicly name whistleblowers or identify cases connected to awards, in keeping with its policy. The regulator in its award order in March said it eventually decided to award one claimant about \$14 million and nothing to the other. The SEC, however, also said the report on Focus Media didn't name its authors, so the agency credited both claimants as authors.

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The award was connected to a 2015 SEC enforcement action against Focus Media and its chairman and CEO, Jason Jiang, and the second claimant for the whistleblower award was Mr. Barnes, according to SEC documents reviewed by The Wall Street Journal.

The SEC fined Focus Media and Mr. Jiang \$55.6 million in 2015 for allegedly withholding critical information from investors in connection to the 2010 sale of the company's Internet advertising business. Focus Media didn't admit to or deny the allegations in settling its case with the SEC.

Mr. Barnes said in an interview with the Journal that the claimant who received the award was Mr. Block, who has been represented by whistleblower attorney Jordan Thomas in the award process.